

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gladwin City -County Transit	County Gladwin
Audit Date Sept. 30, 2004	Opinion Date November 18, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) Burnside & Lang, P.C.			
Street Address 5915 Eastman Ave., Suite 100	City Midland	State MI	ZIP 48640
Accountant Signature			

**GLADWIN CITY-COUNTY TRANSIT**  
**AUDITED FINANCIAL STATEMENTS**  
**September 30, 2004 and 2003**

# GLADWIN CITY-COUNTY TRANSIT

## AUDITED FINANCIAL STATEMENTS SEPTEMBER 30, 2004 and 2003

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## **INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Gladwin City Housing Commission  
Gladwin, Michigan

Dear Commission Members:

We have audited the accompanying financial statements of the business type activities of the Gladwin City-County Transit, a component unit of Gladwin County, Michigan, as of and for the years ended September 30, 2004 and 2003, as listed in the Table of Contents. These financial statements are the responsibility of the Gladwin City-County Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

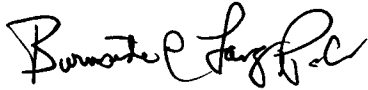
The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information, and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Gladwin City-County Transit as of September 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2004 on our consideration of the Gladwin City-County Transit's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Gladwin City-County Transit  
November 18, 2004  
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Our audit was performed for the purpose of forming an opinion on the financial statements of the Gladwin City-County Transit. The schedules of additional information listed in the table of contents as Schedules 1 through 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements. With the exception of Schedule 5 marked "unaudited," such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Burton C. Long". The signature is fluid and cursive, with the first name "Burton" being more legible than the last name "Long".

Midland, Michigan  
November 18, 2004

**GLADWIN CITY-COUNTY TRANSIT  
COMPARATIVE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003**

**EXHIBIT A**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 479,457	\$ 550,639
Due from Other Governmental Units	153,203	14,636
Accounts Receivable	14,800	7,413
Inventory	48,286	50,839
Prepaid Expenses	76,636	76,662
Capital assets, less accumulated depreciation of \$1,602,525 and \$1,634,698, respectively	<u>1,286,706</u>	<u>863,039</u>
Total Assets	<u>2,059,088</u>	<u>1,563,228</u>
<b>LIABILITIES</b>		
Accounts Payable	104,311	32,575
Salaries and Wages	11,382	37,796
Compensated Absences	20,188	21,873
Deferred Revenue	<u>155,864</u>	<u>121,142</u>
Total Liabilities	<u>291,745</u>	<u>213,386</u>
<b>NET ASSETS</b>		
Invested in capital assets	1,286,706	863,039
Unrestricted	<u>480,637</u>	<u>486,803</u>
Total Net Assets	<u><u>\$ 1,767,343</u></u>	<u><u>\$ 1,349,842</u></u>

The accompanying notes are an integral part of the financial statements.

**GLADWIN CITY-COUNTY TRANSIT  
COMPARATIVE STATEMENTS OF REVENUE, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**EXHIBIT B**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
(Schedule 1)	\$ 232,191	\$ 224,342
<b>OPERATING EXPENSES</b>		
(Schedule 2)	<u>1,457,019</u>	<u>1,531,381</u>
Net Operating Income (Loss)	<u>(1,224,828)</u>	<u>(1,307,039)</u>
<b>NON-OPERATING REVENUES</b>		
Local (Schedule 3A)	336,726	217,265
State and Federal (Schedule 3B)	<u>712,474</u>	<u>806,425</u>
Total Non-Operating Revenues	<u>1,049,200</u>	<u>1,023,690</u>
Income (Loss) Before Capital Contributions	(175,628)	(283,349)
<b>CAPITAL CONTRIBUTIONS</b>		
State and Federal (Schedule 3C)	<u>593,129</u>	<u>70,887</u>
Increase (Decrease) in Net Assets	417,501	(212,462)
Net Assets, Beginning of Period	<u>1,349,842</u>	<u>1,562,304</u>
Net Assets, End of Period	<u><u>\$ 1,767,343</u></u>	<u><u>\$ 1,349,842</u></u>

The accompanying notes are an integral part of the financial statements.

**GLADWIN CITY-COUNTY TRANSIT  
COMPARATIVE STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**EXHIBIT C**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 224,804	\$ 222,707
Cash payments to employees for services and benefits	(954,086)	(1,047,553)
Cash payments to suppliers for goods and services	(216,740)	(344,021)
Net Cash Provided (Used) by Operating Activities	<u>(946,022)</u>	<u>(1,168,867)</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Other income	1,849	-
State and federal grants	683,642	860,081
Property taxes	322,696	207,508
Single Business Tax	706	810
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>1,008,893</u>	<u>1,068,399</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Assistance Grants	448,672	70,887
Proceeds from the sale of assets	6,154	-
Acquisition and Construction of Fixed Assets	(594,200)	(104,813)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(139,374)</u>	<u>(33,926)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	<u>5,321</u>	<u>10,660</u>
Net Cash Provided (Used) by Investing Activities	<u>5,321</u>	<u>10,660</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(71,182)	(123,734)
Cash and Cash Equivalents, Beginning of Period	<u>550,639</u>	<u>674,373</u>
Cash and Cash Equivalents, End of Period	<u><u>\$ 479,457</u></u>	<u><u>\$ 550,639</u></u>

The accompanying notes are an integral part of the financial statements.



**GLADWIN CITY-COUNTY TRANSIT**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**For the Years Ended September 30, 2004 and 2003**

**EXHIBIT C**

	<u>2004</u>	<u>2003</u>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (1,224,828)	\$ (1,307,039)
Adjustments to Reconcile Net Loss to Net Cash		
Provided By (Used For) Operating Activities		
Depreciation Expense	234,087	200,399
Change in Assets and Liabilities:		
Government Grant Funds Receivable	5,890	12,795
Accounts Receivable	(7,387)	426
Inventory	2,553	(5,123)
Prepaid Expenses	26	(68,112)
Accounts Payable	71,736	(161)
Salaries and Wages	(26,414)	(2,156)
Compensated Absences	(1,685)	104
	<u>                    </u>	<u>                    </u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (946,022)</u>	<u>\$ (1,168,867)</u>

The accompanying notes are an integral part of the financial statements.

**GLADWIN CITY-COUNTY TRANSIT  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**NOTE A--REPORTING ENTITY**

The Gladwin City-County Transit System (the "Transit"), a component unit of Gladwin County, is a county-wide transportation system created by an inter-local agreement dated June 22, 1981 between the County of Gladwin and the City of Gladwin. Administrative control of the system was transferred to the Gladwin City Housing Commission with the County Treasurer acting as fiscal agent. The Transit may not issue debt and the tax levy is subject to Gladwin County Board of Commissioners' approval. The Transit taxes are levied under the taxing authority of Gladwin County total tax levy and are reported in the Public Transit Fund. The fiscal year of the Transit is October 1 through September 30.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the Gladwin City-County Transit, a component unit of Gladwin County.

**NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Transit conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

**Basis of Presentation**

The following activity of the Transit is recorded in a separate fund categorized as follows:

**Enterprise Fund**

This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

**GLADWIN CITY-COUNTY TRANSIT  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus/Basis of Accounting**

The Transit's funds are accounted for on a cost-of-service or "capital maintenance" measurement focus using the accrual basis of accounting. The accrual basis provides that revenues are recorded when earned and expenses are recorded when the related liability is incurred. The Transit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Fixed Assets and Depreciation**

Fixed assets are stated at historical cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amounts, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over the estimated useful lives of the assets, which range from three to twenty years.

**Property Tax Revenues**

The county property taxes are levied on each December 1<sup>st</sup> on the taxable value of property located in the county as of the preceding December 31<sup>st</sup>.

The county's 2003 ad valorem tax was levied and collectable on December 1, 2003. It is the Transit's policy to recognize revenues from the current tax levy in the Transit's 2003/2004 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Transit Corporation's operations.

The 2003 taxable value of Gladwin County amounted to \$709,074,403 on which ad valorem taxes of .4626 mills were levied for County Transit Fund operating purposes.

**Cash, Cash Equivalents and Investments**

For the purpose of the statements of net assets and cash flows, demand deposits and short-term investments with a maturity of three months or less when acquired are considered to be cash equivalents. Investments are stated at fair value based on quoted market prices.

**GLADWIN CITY-COUNTY TRANSIT  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Compensated Absences (Vacation and Sick Leave)**

It is the Transit's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Transit does not have a policy to pay any amounts when employees separate from service with the Transit. All vacation pay is accrued when incurred and reported as a liability in the Statement of Net Assets.

**NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS**

Deposits are carried at cost and are currently in one financial institution. Michigan Compiled Laws, Section 129.91 et al., authorizes the Transit to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Transit's deposits and investment policy are in accordance with statutory authority.

At September 30, 2004 and 2003, the breakdown between deposits and investments were as follows:

	<u>2004</u>	<u>2003</u>
Bank deposits (checking and savings accounts)	\$ 106,201	\$ 114,626
Cash held by the County Treasurer	373,106	435,863
Petty cash and cash on hand	<u>150</u>	<u>150</u>
Total Cash and Cash Equivalents	<u>\$ 479,457</u>	<u>\$ 550,639</u>

**GLADWIN CITY-COUNTY TRANSIT  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

At September 30, 2004 and 2003, the bank balances of the Transit's deposits are \$124,764 and \$179,893, of which \$100,000 is covered by federal depository insurance. The actual bank balances of amounts held by the County Treasurer for the Transit is insured only to the extent that some or all of the County's available insurance coverages could be allocated to these specific accounts.

**NOTE D--CAPITAL ASSETS**

Major classes of property and equipment consist of the following at September 30, 2004 and 2003:

September 30, 2004	Purchased with System Funds	Purchased with Capital Grants	Total
Land and Improvements	\$ 198,853	\$ 45,712	\$ 244,565
Buildings & Improvements	117,948	628,697	746,645
Buses/Vehicles	140,946	1,426,234	1,567,180
Equipment	64,991	265,850	330,841
Total Capital Assets	522,738	2,366,493	2,889,231
Less: Accumulated Depreciation	204,460	1,398,065	1,602,525
Net Property and Equipment	<u>\$ 318,278</u>	<u>\$ 968,428</u>	<u>\$ 1,286,706</u>

September 30, 2003	Purchased with System Funds	Purchased with Capital Grants	Total
Land and Improvements	\$ 198,853	\$ 45,712	\$ 244,565
Buildings & Improvements	85,597	309,330	394,927
Buses/Vehicles	147,746	1,379,658	1,527,404
Equipment	64,991	265,850	330,841
Total Capital Assets	497,187	2,000,550	2,497,737
Less: Accumulated Depreciation	174,526	1,460,172	1,634,698
Net Property and Equipment	<u>\$ 322,661</u>	<u>\$ 540,378</u>	<u>\$ 863,039</u>

The depreciation expense for the years ended September 30, 2004 and 2003 was \$234,087 and \$200,399, respectively.

**GLADWIN CITY-COUNTY TRANSIT  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**NOTE E--PENSION PLAN**

The Transit, through its oversight agency the Gladwin City Housing Commission, provides a retirement benefit for its employees. On January 1, 1989, the Gladwin City Housing Commission adopted the Gladwin City Housing Commission Deferred Compensation Plan and the Gladwin City Housing Commission Section 457 Plan to provide this benefit. On November 11, 2003 the Gladwin City Housing Commission adopted Resolution #03-7, which terminated these plans, and then adopted Resolution #03-8, establishing a defined benefit pension plan through the Municipal Employees' Retirement System of Michigan (MERS). Assets of the previous plans were transferred to the new plan. For the years ended September 30, 2004 and 2003, the Transit paid pension costs totaling \$50,774 and \$19,462, respectively.

**NOTE F--RISK MANAGEMENT**

The Transit participates in a public entity risk pool with other local units of government in the Housing Authority Property Insurance Group and the Housing Authority Risk Retention Group. These self-insurance plans provide members with loss protection for property damage, general liability, automobile damage, and boiler and machinery damage. The Transit also participates in the Michigan Transit Insurance Pool, which provides insurance covering system vehicles. The total cost of these plans was \$56,050 and \$42,620 for the years ended September 30, 2004 and 2003.

**NOTE G--CONTINGENCIES**

The Transit receives significant financial assistance from Federal and State governmental agencies in the form of operating and capital grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Transit. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Transit.

**GLADWIN CITY-COUNTY TRANSIT  
COMPARATIVE SCHEDULES  
OF OPERATING REVENUE  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**SCHEDULE 1**

<b>Operating Revenues</b>	<u><b>2004</b></u>	<u><b>2003</b></u>
Demand - Response (Farebox)	\$ 220,102	\$ 212,214
Freight Tariffs	138	32
Advertising	<u>11,951</u>	<u>12,096</u>
Total Operating Revenues	<u><u>\$ 232,191</u></u>	<u><u>\$ 224,342</u></u>

**GLADWIN CITY-COUNTY TRANSIT  
SCHEDULE OF OPERATING EXPENSES  
YEAR ENDED SEPTEMBER 30, 2004**

**SCHEDULE 2**

(With Comparative Totals for Year Ended September 30, 2003)

	<u>2004</u>				<u>2003</u>
	<u>Operations</u>	<u>Maintenance</u>	<u>General &amp; Admin.</u>	<u>Total System</u>	<u>Total System</u>
Labor					
Operator's Salaries and Wages	\$ 375,383	\$ -	\$ -	\$ 375,383	\$ 436,667
Other Salaries and Wages	85,597	99,388	150,553	335,538	373,994
Fringe Benefits	89,835	29,023	96,208	215,066	234,736
Other Services	-	30,216	12,115	42,331	49,649
Material and Supplies Consumed					
Fuel and Lubricants	70,485	-	-	70,485	70,957
Tires and Tubes	5,223	-	-	5,223	5,550
Other Material and Supplies	30,825	15,426	13,708	59,959	61,776
Utilities	-	-	28,858	28,858	30,225
Auxiliary Transportation	-	-	1,550	1,550	170
Insurance	52,564	-	3,486	56,050	42,620
Miscellaneous					
Travel and Meetings	555	13	11,839	12,407	9,059
Advertising and Promotion	-	-	12,058	12,058	7,233
Other Miscellaneous	2,959	-	5,065	8,024	8,346
Depreciation	<u>209,599</u>	<u>12,244</u>	<u>12,244</u>	<u>234,087</u>	<u>200,399</u>
Total Operating Expenses	<u>\$ 923,025</u>	<u>\$ 186,310</u>	<u>\$ 347,684</u>	<u>\$ 1,457,019</u>	<u>\$ 1,531,381</u>



**GLADWIN CITY-COUNTY TRANSIT  
COMPARATIVE SCHEDULES OF  
NON-OPERATING REVENUE - LOCAL  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**SCHEDULE 3A**

	<u>2004</u>	<u>2003</u>
<b>Local Operating Assistance</b>		
Property Taxes	\$ 322,696	\$ 207,508
Single Business Tax	<u>706</u>	<u>810</u>
Total Local Operating Assistance	<u>323,402</u>	<u>208,318</u>
<b>Other Revenues</b>		
Interest Income	5,321	8,947
Sale of assets	6,154	-
Miscellaneous	<u>1,849</u>	<u>-</u>
Total Other Revenues	<u>13,324</u>	<u>8,947</u>
Total Non-Operating Revenues - Local	<u><u>\$ 336,726</u></u>	<u><u>\$ 217,265</u></u>

**GLADWIN CITY-COUNTY TRANSIT  
COMPARATIVE SCHEDULES OF  
NON-OPERATING REVENUE - STATE AND FEDERAL  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**SCHEDULE 3B**

	<u>2004</u>	<u>2003</u>
<b>State of Michigan Operating Grants</b>		
State Operating Assistance (Act 51)	\$ 518,830	\$ 532,875
State Operating Assistance - Project Zero	<u>58,984</u>	<u>137,212</u>
Total State of Michigan Operating Grants	<u>577,814</u>	<u>670,087</u>
<b>Federal Operating Grants</b>		
US DOT Operating Grant - Section 5311	129,692	133,215
Rural Transit Assistance Programs	<u>7,451</u>	<u>3,265</u>
Total Federal Operating Grants	<u>137,143</u>	<u>136,480</u>
State and Federal Grants - Prior Year Adjustments	<u>(2,483)</u>	<u>(142)</u>
Total Non-Operating Revenue - State and Federal	<u><u>\$ 712,474</u></u>	<u><u>\$ 806,425</u></u>

**GLADWIN CITY-COUNTY TRANSIT**  
**SCHEDULE OF CAPITAL GRANTS - STATE AND FEDERAL**  
**For the Year Ended September 30, 2004**

**SCHEDULE 3C**

<b>State and Federal Capital Grants</b>	<b>Asset Purchased Or Constructed</b>	<b>Federal Share</b>	<b>State Share</b>	<b>Total</b>
State Grant Number 2001-0539	Facility Renovation	\$ 100,636	\$ 25,159	\$ 125,795
State Grant Number 2002-0038	Van	18,782	4,695	23,477
State Grant Number 2002-0038	Buses	202,615	50,654	253,269
State Grant Number 2002-0038	Facility Renovation	152,470	38,118	190,588
Total Capital Grants - State and Federal		<u>\$ 474,503</u>	<u>\$ 118,626</u>	<u>\$ 593,129</u>

**GLADWIN CITY-COUNTY TRANSIT  
SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS  
YEAR ENDED SEPTEMBER 30, 2004**

**SCHEDULE 4**

	<u>Federal Section 5311</u>	<u>State Operating Assistance</u>
<b>Operating Expenses</b>		
Labor	\$ 710,921	\$ 710,921
Fringe Benefits	215,066	215,066
Services	42,331	42,331
Materials and Supplies	135,667	135,667
Utilities	28,858	28,858
Auxiliary Transportation	1,550	1,550
Casualty and Liability Insurance	56,050	56,050
Miscellaneous	32,489	32,489
Depreciation	234,087	234,087
Total Operating Expenses	<u>1,457,019</u>	<u>1,457,019</u>
<b>Less Ineligible Expenses</b>		
Depreciation	197,353	197,353
Project Zero	58,984	58,984
Rural Transit Assistance Programs	7,451	7,451
Auxiliary Transportation	1,550	1,550
Dues and Subscriptions	123	123
Legal and audit services	7,014	7,014
Total Ineligible Expenses	<u>272,475</u>	<u>272,475</u>
Net Eligible Expenses	<u>1,184,544</u>	
<b>Less Project Revenue</b>		
Freight Tariffs	138	-
Total Project Revenue	<u>138</u>	<u>-</u>
Net Federal Section 5311	<u>\$ 1,184,406</u>	
Net Eligible State Operating Expenses		<u>1,184,544</u>
Lower of:		
Federal Section 5311 Reimbursement (10.95 percent)	<u>\$ 129,692</u>	
Contract Amount	<u>\$ 167,191</u>	
Net Eligible State Operating Expenses		<u>\$ 1,184,544</u>
Maximum State Operating Assistance (60 percent)		<u>\$ 710,726</u>
1997 Operating Assistance Floor		<u>\$ 351,974</u>

**GLADWIN CITY-COUNTY TRANSIT  
MILEAGE DATA - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2004**

**SCHEDULE 5**

	<b>Public Transportation Mileage</b>
Demand-Response	
First Quarter	133,790
Second Quarter	139,722
Third Quarter	122,370
Fourth Quarter	109,399
Total Demand-Response	505,281

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method of recording vehicle mileage.

**GLADWIN CITY-COUNTY TRANSIT  
SCHEDULE OF FEDERAL AND STATE AWARDS  
YEAR ENDED SEPTEMBER 30, 2004**

**SCHEDULE 6**

	<u>Federal CFDA Number</u>	<u>State Grantor Number</u>	<u>Federal Costs</u>	<u>State Costs</u>	<u>Revenue Recognized</u>
US Department of Transportation Passed Through Michigan Department of Transportation					
Capital Assistance					
Section 5309	20.500	2001-0539	\$ 100,636	\$ 25,159	\$ 125,795
Capital Assistance					
Section 5309	20.500	2002-0038	18,782	4,695	23,477
Capital Assistance					
Section 5309	20.500	2002-0038	202,615	50,654	253,269
Capital Assistance					
Section 5309	20.500	2002-0038	152,470	38,118	190,588
Total Capital Assistance			<u>474,503</u>	<u>118,626</u>	<u>593,129</u>
US Department of Transportation Passed Through Michigan Department of Transportation					
Operating Assistance					
Section 5311	20.509	2002-0038	129,692	-	129,692
Rural Transit Assistance Programs					
Section 5311	20.509		7,451	-	7,451
Michigan Department of Transportation					
Operating Assistance					
Act 51 - FYE September 30, 2003			-	1,184,544	518,830
Operating Assistance					
Project Zero		2002-0038	-	58,984	58,984
Total Operating Assistance			<u>137,143</u>	<u>1,243,528</u>	<u>714,957</u>
Total Capital and Operating Assistance			<u>\$ 611,646</u>	<u>\$ 1,362,154</u>	<u>\$ 1,308,086</u>

The notes to the Schedule of Expenditures of Federal and State Awards are an integral part of this statement.

**GLADWIN CITY-COUNTY TRANSIT  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS**

1. The accompanying Schedule of Expenditures of Federal and State Awards present the activity of all Federal and State awards programs of the Gladwin City-County Transit. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting which is described in Note B of the Gladwin City-County Transit's financial statements.
3. The maximum State Operating Assistance of \$710,726 was not recognized, due to uncertainty of the actual payment from the State. The revenue is based on statewide available funding and could be as low as \$351,974 which is the 1997 floor. See Schedule 4 for net eligible costs computation.
4. The Transit participates in a public entity risk pool with other local units of government in the Housing Authority Property Insurance Group and the Housing Authority Risk Retention Group. These self-insurance plans provide members with loss protection for property damage, general liability, automobile damage, and boiler and machinery damage. The Transit also participates in the Michigan Transit Insurance Pool, which provides insurance covering system vehicles.

**GLADWIN CITY-COUNTY TRANSIT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2004**

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?        Yes   X   No

Non-compliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?        Yes   X   No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        Yes   X   No



## GLADWIN CITY-COUNTY TRANSIT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended September 30, 2004**

**Section I - Summary of Auditor's Results**  
**(Continued)**

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.500	Federal Transit: Capital Investment Grants
20.509	Formula Grants for Other Than Urbanized Areas
	(Non-urbanized area formula program)

Dollar threshold used to distinguish  
between type A and type B programs: \$500,000

Auditee qualified as low-risk auditee?        Yes   X   No

**Section II - Financial Statement Findings**

No matters were reported.

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.

*Accounting Solutions That Foster Success*

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Gladwin City Housing Commission  
Gladwin, Michigan

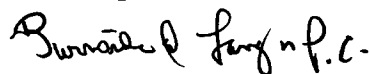
Dear Commission Members:

We have audited the financial statements of Gladwin City-County Transit, as of and for the year ended September 30, 2004, and have issued our report thereon dated November 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Gladwin City-County Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Accounting Standards*.

In planning and performing our audit, we considered Gladwin City-County Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Housing Commission, management and Federal awarding agencies and pass through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Midland, Michigan  
November 18, 2004

*Accounting Solutions That Foster Success*

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Commissioners  
Gladwin City Housing Commission  
Gladwin, Michigan

Dear Commission Members:

Compliance

We have audited the compliance of the Gladwin City-County Transit, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. Gladwin City-County Transit's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Gladwin City-County Transit's management. Our responsibility is to express an opinion on the Gladwin City-County Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Gladwin City-County Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Gladwin City-County Transit's compliance with those requirements.

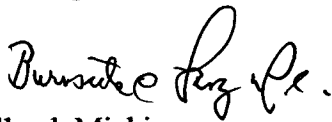
In our opinion, the Gladwin City-County Transit complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

### Internal Control Over Compliance

The management of the Gladwin City-County Transit is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Gladwin City-County Transit's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of audit committee, management and Federal awarding agencies and is not intended and should not be used by anyone other than these specified parties.



Midland, Michigan  
November 18, 2004

November 18, 2004

Board of Commissioners  
Gladwin City Housing Commission and  
Gladwin City-County Transit  
Gladwin, Michigan

Dear Commission Members:

In planning and performing our audit of the financial statements of the Gladwin City-County Transit (the "Transit"), for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls. Our consideration of internal controls would not necessarily disclose all matters in the internal control process that might be material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to relatively low level the risk that misstatements caused by errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

### **INTERNAL CONTROL**

#### **Financial Oversight**

The general limitations in any smaller organization like the Transit requires that Commission members continue to remain involved in the financial affairs of the Transit through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, Commissioners perform these duties and our comment here is intended to emphasize the importance of its oversight.

### **OTHER MATTERS**

#### **Revenue and Expenditure Projections**

During our audit we noted that Transit management does not make projections of revenues and expenditures beyond the one year budget cycle. We recommend this analysis be made part of the budgeting process and estimate revenue and expenditures for three to five years beyond the current budget cycle. Following this recommendation will highlight potential financial difficulties and allow Commissioners time to evaluate the effect on Transit services.

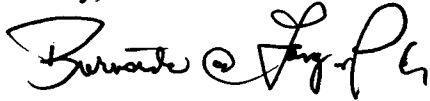
Gladwin City Housing Commission and  
Gladwin City-County Transit  
November 18, 2004  
Page 2

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the September 30, 2004, financial statements, and this report does not affect our report on those financial statements dated, November 18, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Gladwin City Housing Commission, management, Gladwin County Commissioners and state and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Burnside & Lang, P.C.", written in a cursive style.

**BURNSIDE & LANG, P.C.**